

VZCZCXRO5483
PP RUEHDBU
DE RUEHNT #1386/01 2110455
ZNY CCCCC ZZH
P 300455Z JUL 07
FM AMEMBASSY TASHKENT
TO RUEHC/SECSTATE WASHDC PRIORITY 8219
INFO RUEHAH/AMEMBASSY ASHGABAT 3176
RUEHTA/AMEMBASSY ASTANA 9325
RUEHEK/AMEMBASSY BISHKEK 3788
RUEHDBU/AMEMBASSY DUSHANBE 3650

C O N F I D E N T I A L SECTION 01 OF 02 TASHKENT 001386

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E.O. 12958: DECL: 07/27/2017
TAGS: [ECON](#) [PGOV](#) [SOCI](#) [UZ](#)
SUBJECT: HIGH POVERTY DESPITE STRONG ECONOMIC GROWTH

REF: TASHKENT 1284

Classified By: CDA Brad Hanson for reasons 1.4 (b) and (d).

¶1. (C) Summary: While Government of Uzbekistan (GOU) officials tout the country's strong economic growth, they fail to recognize problems associated with high inflation and poverty rates. Inflation in 2006 most likely was around 20 percent and the cost of living continues to rise, fueled recently by a decree raising minimum monthly salaries. This contributes to high poverty rates; government officials have acknowledged that at least 26 percent of the population lives below the poverty line, but the true figure likely is around 75 percent. Uzbekistan's economic growth certainly has been good for the country's "haves," but has done little to improve the lives of its "have nots." End summary.

¶2. (C) GOU officials continue to tout the country's strong economic growth as evidence that reforms ordered by President Islam Karimov are working. Official statistics peg real Gross Domestic Product (GDP) growth in 2006 at 7.2 percent, and recently released figures indicate that GDP grew by over nine percent during the first half of 2007. Official GDP growth statistics are difficult to independently verify; however, World Bank officials recently told Charge that they believe the government figures could be accurate (reftel).

¶3. (C) Even if accurate, strong GDP growth serves to hide other, deeper problems in the Uzbek economy. For example, official statistics put inflation in 2006 at 7.2 percent. The GOU's approach to estimating inflation rates, however, differs substantially from international standards. The International Monetary Fund (IMF) estimates inflation in 2006 was closer to 19 percent, while Post's own semi-annual market surveys suggest it was 25 percent. Post's most recent market survey indicates that the cost of living for an average Uzbek family has risen another 14 percent in the first half of 2007.

¶4. (C) A July 10 presidential decree raising minimum monthly salaries from \$10 to \$13 likely will only exacerbate the situation as wage indexation traditionally has led to an increase in inflation while resulting only in insignificant increases in real income. Several of Post's local staff report they are already seeing price increases for milk, meat, and other staples despite the wage increase not taking effect until early August. Recent internet press reports also comment on "huge" price increases in Andijon and elsewhere following the announcement of the decree, which one website suggested was designed to increase President Karimov's popularity in the run-up to the December presidential election. The decree will not necessarily result in a wage increase for most ordinary Uzbeks, as the minimum monthly salary figure primarily is used as a means of calculating fees and penalties.

¶5. (C) Continued increases in the cost of living add

substantially to the burden of the large number of Uzbeks living in poverty. The Ministry of Economy estimates that approximately 26 percent of the population lives in poverty. This probably significantly underestimates the true poverty level in Uzbekistan, as the World Bank agreed with the Ministry of Economy to set the poverty line for Uzbekistan at \$1.10 per person per day. Elsewhere, the World Bank's poverty line is \$2.15 per person per day. Applying the more widely used figure raises the estimates of Uzbeks living in poverty to around 75 percent of the population.

¶16. (C) Low wages and unemployment, officially estimated by the International Labor Organization (ILOs) at eight percent, has fueled an explosion in the number of Uzbeks working abroad. (Note: This probably significantly underestimates Uzbekistan's true unemployment rates as ILO's estimate does not capture large segments of the population officially employed at now defunct factories or other state enterprises, but in reality neither working nor receiving a paycheck. These estimates also do not capture the large number of people who leave Uzbekistan to seek work elsewhere. End note.) The World Bank estimates the number of Uzbeks working outside the country could be as high as 3-4 million, with remittances through official banking channels in 2006 reaching \$1.6 billion, or ten percent of Uzbekistan's GDP. (Note: The World Bank believes that another \$1.5 billion may have been sent back to Uzbekistan through unofficial channels. End note.) Uzbekistan's labor force currently is growing at more than three percent a year, while the growth of new jobs is under two percent. The government claims that the volume of investments for the creation of new jobs is growing; however, most of this investment is directed to industrial sectors, which collectively employ less than 13 percent of the labor force. Meanwhile, small and medium

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sized enterprises, which employ about half the labor force, suffer disproportionately from trade restrictions, high taxes, and overregulation.

¶17. (C) Comment: Uzbekistan's economic growth has no doubt been very good for the country's "haves," but it has done little to improve the lives of the "have nots." The GOU instituted a tighter monetary policy in 2006, which has started to bring inflation down slowly. Still, inflation remains high, and combined with the GOU's irrational economic policy, increases the cost of living and slows efforts to reduce poverty. Despite the vast majority of its population trying to scratch out an existence below the poverty line, the GOU prefers to hide behind its economic growth figures and does not recognize, officially or unofficially, the magnitude of the problem, and is taking virtually no action to implement poverty reduction reforms.

HANSON